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Independent Auditors' Report

Honorable Alex Penelas, Mayor and Honorable Chairperson and Members Board of County Commissioners Miami-Dade County, Florida:

We have audited the accompanying financial statements of the Miami-Dade Water & Sewer Department of Miami-Dade County, Florida (the Department), as of and for the years ended September 30, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements referred to above are intended to present the financial position, and changes in financial position, and cash flows of the Miami-Dade Water & Sewer Department of Miami-Dade County, Florida and do not purport to, and do not, present fairly the financial position of Miami-Dade County, Florida as of September 30, 2002 and 2001 and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2002 and 2001, and the changes in its financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Department has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, GASB Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34, and GASB Statement No. 38, Certain Financial Statement Note Disclosures, as of October 1, 2001 As discussed in note 1 to the financial statements, the Department also adopted GASB



Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, as of October 1, 2000.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2003 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 20 through 23 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Department. The accompanying introductory section supplementary financial data, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements of the Department. The supplementary financial data has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 24, 2003

OVERVIEW

The following Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements of the Miami-Dade Water and Sewer Department (the Department) for the fiscal year ended September 30, 2002. The MD&A represents management's examination and analysis of the Department's financial condition and performance. It should be read in conjunction with the financial information of the transmittal letter in the introductory section and the financial statements in the financial section of this report. The financial statements include balance sheets; statements of revenues, expenses and changes in net assets; statements of cash flows; and notes to the financial statements.

The balance sheets present the financial position of the Department as of a specific date. It provides information about the nature and amount of resources (assets) and obligations (liabilities), with net assets being the difference between assets and liabilities. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Department's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs which might not coincide with the timing of the related cash flows.

The statements of cash flows present the cash activities of the Department segregated in the following four major categories: operating, non-capital financing, capital and related financing and investing. This statement also presents the changes in cash and cash equivalents of the Department.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements.

FINANCIAL POSITION

A summary of the Department's net assets and related changes for the fiscal years ended September 30, 2002 and 2001 is shown in the following page. Total net assets as of September 30, 2002, were \$2.2 billion. The Department's net assets increased from last year by \$20.3 million, or by 1%, primarily due to capital contributions of \$57.2 million offsetting a loss before contributions and transfers (excess of expenses over revenues) of \$3.8 million and transfers to County's General Fund of \$33 million. The unrestricted portion of net assets (available to meet ongoing and future obligations of the Department) had a decrease of \$42.6 million, or 15.3%, from fiscal year 2001.

The above loss before contributions and transfers was caused by a combination of decreased revenues and increased expenses. Operating revenues decreased by \$6.5 million, or by 1.8%, primarily attributable to a decrease in water rate and a decline in the demand for water. Interest income also decreased by \$27.4 million from last year due to a decrease in market yield for the short and medium term investments which account for the majority of the Department's portfolio.

Operating and maintenance expenses increased by \$16.7 million, or by 9.2% from the previous year. Increased employee compensation, security services and property insurance expenses made up the majority

of the increase. The \$5.4 million increase in depreciation expense was offset by a reduction of \$2.4 million in interest expense, net of capitalized interest.

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SUMMARY OF NET ASSETS	2002	2001
Current and Other Assets	\$1,120,808	$$1,1\overline{61,41}6$
Capital Assets	2,932,784	2,890,506
Total Assets	4,053,592	4,051,922
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T (T' 1 'U')	1 710 201	1 722 052
Long-term Liabilities	1,718,391	1,732,952
Other liabilities	174,976	179,058
Total Liabilities	<u>1,893,367</u>	<u>1,912,010</u>
Net Assets:		
Invested in capital assets, net of debt	1,586,602	1,562,617
Restricted	337,273	298,345
Unrestricted	236,350	278,950
Total Net Assets	\$2,160,225	\$2,139,912
CANADA DA CA ANCEC IN NET A COPEC	2002	2001
SUMMARY OF CHANGES IN NET ASSETS	2002	2001
Water operating revenues	\$ 151,095	\$ 154,309
Wastewater operating revenues	203,012	206,314
Interest Income	32,820	60,233
Other nonoperating revenues	1,480	1,511
Total revenues	388,407	422,367
	106050	100.010
Operating & maintenance expenses	196,872	180,219
Depreciation	114,642	109,270
Interest expense	79,846	82,288
Other nonoperating expenses	876_	876_
Total expenses	_392,236_	_372,653
Excess (deficiency) before contributions	(2.020)	10 =1 1
and transfers	(3,829)	49,714
Capital Contributions	57,177	47,574
Transfers to County's General Fund	_(33,035)	(25,547)
Increase in net assets	20,313	71,741
Net assets at beginning of year	<u>2,139,912</u>	<u>2,068,171</u>
Net assets at end of year	\$2,160,225	\$ <u>2,139,912</u>

The Board of County Commissioners has approved a restructuring of the Department's service rates for fiscal year 2003. Management believes that the retail rate structure will be revenue neutral while encouraging water conservation.

CAPITAL ASSETS

The following table summarizes the Department's capital assets, net of accumulated depreciation, for the years ended September 30, 2002 and 2001 (in thousands). Total capital assets increased by \$42.3 million, or 1.5%, over last year. This increase is due to capital additions, net of plant retirements, of \$156.9 million

offset by \$114.6 million for depreciation. Additional information in changes in capital assets can be found in Note 4 to the financial statements.

	2002	<u>2001</u>
Land	\$ 30,390	\$ 30,390
Structures and improvements	2,230,037	2,186,577
Equipment	326,757	324,869
Construction work in progress	<u>345,600</u>	<u>348,670</u>
Total capital assets	\$ <u>2,932,784</u>	\$ <u>2,890,506</u>

This year's major expenditures in capital assets included:

Water projects:

- Transmission mains, meters and services (\$35.2 million)
- Treatment facilities (\$20.7 million)
- General building improvements (\$16 million)
- Computer systems (\$6.1 million)
- Transportation equipment (\$3.4 million)
- System wide improvements (\$3 million)
- Fire hydrants (\$2.5 million)
- Pumping facilities (\$2.1 million)
- Wellfields (\$1.8 million)

Wastewater projects:

- Gravity mains and services (\$15.5 million)
- Infiltration and inflow reduction program (\$11.6 million)
- Treatment facilities (\$9.9 million)
- Pump stations (\$9.6 million)
- Force mains (\$3.1 million)

Budgeted capital expenditures for fiscal year 2003 amount to \$254.9 million and include \$110.4 million in water projects and \$144.5 million in wastewater projects.

LONG-TERM DEBT

Long-term debt outstanding (including current portion) at September 30, 2002 and 2001 is presented in the following table (in thousands). The year 2002 shows a decrease of \$12.9 million from the previous year.

	2002	2001
Revenue Bonds	\$1,581,183	\$1,607,766
State Loan Obligations	146,965	133,130
Notes payable	941	1,118
Total long-term debt	\$1,729,089	\$1,742,014

During 2002 additional state revolving fund loan commitments were obtained in amount of \$32.9 million. Draws made on state revolving fund commitments and recorded as debt, including capitalized interest, were \$22.4 million in 2002. Current long-term debt maturities were met in amount of \$37.3 million. An existing swap agreement relating to the Series 1993 Bonds was amended to increase the related notional

amount from \$114.5 million to \$200 million, as well as amend the payment calculation basis. Additional long-term debt details can be found in Note 5 to the financial statements.

The Department is required to maintain rates and charges sufficient to meet two sets of debt service coverage requirements. First, adjusted annual net operating revenues must equal or exceed 110 percent of the debt service on revenue bonds. Primary debt service coverage ratio for the year was 1.72, which is greater than the required level of 1.10. Second, adjusted net operating revenues, after payment of revenue bond debt service, must be at least equal to 115 percent of the debt service for subordinate obligations which include the state loan obligations. The Department met the secondary debt service coverage with a ratio of 5.8, which is greater than the required ratio of 1.15.

In November 2002, Moody's Investors Service, a leading global credit rating firm, assigned a rating of Aaa/VMIG 1 to the Miami-Dade Water and Sewer Department's nearly \$420 million 1994 variable rate revenue bonds. The "Aaa" rating is indicative of investment vehicles which are "judged to be of the best quality" and are generally referred to as "gilt-edged", according to Moody's website. The "VMIG 1" rating "denotes superior credit quality," also according to Moody's website. Both ratings are the highest issued by Moody's. This action was taken by Moody's in response to the replacement of the liquidity provider for the variable rate bonds. It is the third such upgrade taken by well-known bond-rating agencies over the last three years, and the second year in a row where Moody's upgraded its ratings on the Department's bonds.

REQUEST FOR INFORMATION

Questions concerning this report or requests for additional information should be directed to Dana M. Moss, Sr., Assistant Director - Finance at 786-552-8104 or at his office located at 3071 S.W. 38th Ave., Miami, Florida 33146.

BALANCE SHEETS

	September 30,	2002		2001
ASSETS			(In thousands)	
CURRENT ASSETS:				
Cash and cash equivalents		\$ 76,623	\$,
Investments Accounts receivable		141,487		213,909
(net of allowance for uncollectible accoun	ts of			
\$20.8 million in 2002 and \$20.6 million i	n 2001)	72,615		72,644
Inventory of materials and supplies		20,592	_	19,131
Total current assets		311,317_	_	356,699
NONCURRENT ASSETS:				
RESTRICTED ASSETS:				
Cash and cash equivalents Investments		158,186		77,658 706,210
Contracts receivable		630,245 466		947
EPA grants receivable		76	_	
Total restricted assets		788,973_	_	784,815
DEFERRED CHARGES:				
Deferred debt issue costs, net		16,764		17,461
Other deferred charges, net		3,754	_	2,441
Total deferred charges		20,518		19,902
CAPITAL ASSETS:				
Land Structures and improvements		30,390 2,941,007		30,390 2,832,835
Equipment		678,474		639,954
Utility plant in service before depreciation		3,649,871		3,503,179
Less accumulated depreciation		1,062,687	_	961,343
Net utility plant in service		2,587,184		2,541,836
Construction work in progress		345,600	<u>_</u>	348,670
Total capital assets		2,932,784	_	2,890,506
Total noncurrent assets		3,742,275_	_	3,695,223
Total assets		\$ 4,053,592	<u>\$</u>	4,051,922

(Continued)

WATER & SEWER DEPARTMENT

(Continued)	September 30,	2002		2001
Liabilities			(In thousands)	
CURRENT LIABILITIES (PAYABLE FROM CURRENT A Accounts payable and accrued expenses Customer and developer deposits Current portion of long-term debt Accrued interest payable Rebatable arbitrage earnings Liability for compensated absences Other liabilities	ISSETS):	\$ 37,293 15,979 7,622 730 2,348 6,842 573		\$ 36,613 17,856 6,142 1,072 4,903 6,307 569
Total current liabilities (payable from	n current assets)	71,387		73,462
CURRENT LIABILITIES (PAYABLE FROM RESTRICTE Accounts payable and accrued expenses Retainage payable Current portion of long-term debt Accrued interest payable Liability for self-insurance Total current liabilities (payable from		15,718 7,413 32,921 44,322 3,215 103,589		17,568 8,166 31,335 45,027 3,500 105,596
NONCURRENT LIABILITIES: Revenue bonds payable, net State loan obligations, net Notes payable, net Liability for self-insurance Liability for compensated absences Total noncurrent liabilities Total liabilities		1,551,263 136,529 754 15,782 14,063 1,718,391		1,579,151 124,444 942 15,452 12,963 1,732,952 1,912,010
NET ASSETS Invested in capital assets, net of related de Restricted for: Capital projects Debt service Unrestricted	ebt	1,586,602 170,471 166,802 236,350		1,562,617 132,975 165,370 278,950
Total net assets		2,160,225		2,139,912
Total liabilities and net assets		\$ 4,053,592		\$ 4,051,922

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended September 30,	2002	2001
OPERATING REVENUES:		(In thousands)
Water	\$ 151,095	\$ 154,309
Wastewater	203,012	206,314_
Total operating revenues	354,107	360,623
OPERATING AND MAINTENANCE EXPENSES:		
Water source of supply	4,728	4,771
Water power and pumping	1,803	1,558
Water purification Water transmission and distribution	34,466 19,357	32,640 18,229
Wastewater collection system	12,793	18,229
Wastewater pumping	22,828	20,709
Wastewater treatment	43,086	40,707
Customer accounting	7,090	6,407
Customer service General and administrative	14,993 35,728	14,790 27,473
Total operating and maintenance expenses	196,872	180,219
Operating income before depreciation	157,235	180,404
DEPRECIATION	114,642	109,270
Operating income	42,593	71,134
NON-OPERATING REVENUES (EXPENSES):		
Interest income	32,820	60,233
Interest expense	(79,846)	(82,288)
Amortization of debt issue costs Operating grants	(876) 1,480	(876) 1,511
Operating grants	1,400	1,311_
Income (loss) before contributions and transfers	(3,829)	49,714
Capital contributions	57,177	47,574
Transfers to County's General Fund	(33,035)	(25,547)
Increase in net assets	20,313	71,741
Net assets at beginning of year	2,139,912	2,068,171_
Net assets at end of year	\$ 2,160,225	\$ 2,139,912

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF CASH FLOWS

For the years ended September 30,	2002	_2001_ (In thousands)
Cash received from customers Cash paid to suppliers for goods and services Cash paid to employees for services Net cash provided by operating activities	\$ 354,085 (99,099) (99,625) 155,361	\$ 364,943 (88,153) (96,346)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Operating grants received Transfers to County's General Fund Net cash used in non-capital financing activities	1,128 (33,035) (31,907)	358 (25,547) (25,189)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Proceeds from bond issues, loan agreements and notes Principal payments - bonds, loans and notes Interest paid Proceeds from sale of property, plant and equipment Acquisition and construction of capital assets Contributions received	21,488 (37,249) (88,407) 57 (129,507) 37,649	18,928 (34,148) (87,273) 168 (159,850) 32,561
Net cash used in capital and related financing activities	(195,969)	(229,614)
CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of investment securities Proceeds from sale and maturity of investment securities Interest on investments Net cash provided by investing activities	(938,468) 1,083,188 33,931 178,651	(1,283,720) 1,372,463 <u>56,151</u> 144,894
Net increase in cash and cash equivalents Cash and cash equivalents at beginning of year	106,136 128,673	70,535 58,138
Cash and cash equivalents at end of year	<u>\$ 234,809</u>	\$ 128,673

(Continued)

STATEMENTS OF CASH FLOWS

(Continued)	For the years ended September 30,		2002		2001
				(In thousands)	
RECONCILIATION OF OPER OPERATING ACTIVITIES:	RATING INCOME TO NET CASH PROVIDED BY				
Operating income Adjustments to reprovided by oper	econcile operating income to net cash	\$	42,593		\$ 71,134
Depreciation	č		114,642		109,270
Provision for up	ncollectible accounts		1,239		-
Amortization o	f deferred charges		173		-
(Increase) decre					
Accounts rec	ceivable		(907)		2,721
Inventory of	materials and supplies		(1,461)		1,278
Other deferre	ed charges		(4)		(1,678)
Increase (decre	ase) in liabilities:				
Accounts pay	yable and accrued expenses		682		(447)
Customer an	d developer deposits		(2,939)		149
Accrued inte	rest payable		(341)		3
Liability for	compensated absences		1,635		1,265
Other liabilit	ies		4		(236)
Liability for	self-insurance	_	45		(3,015)
Net cash pro	vided by operating activities	\$	155,361		\$ 180,444

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$19.9 million and \$14.9 million in fiscal years 2002 and 2001, respectively.

The (decrease) increase in the fair value of investments were (\$1.4) million and \$4.8 million in fiscal years 2002 and 2001, respectively.

The accompanying notes to financial statements are an integral part of these statements.

SEPTEMBER 30, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION

The Miami-Dade Water and Sewer Department (the Department) functions as a self-supporting governmental enterprise fund of Miami-Dade County, Florida (the County). An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. Accordingly, its financial statements have been prepared on the accrual basis of accounting. The Department issues a separate comprehensive annual financial report and its financial statements are combined in the County's comprehensive annual financial report.

The accompanying financial statements combine the accounts of both the Water and Wastewater Systems to provide meaningful information with respect to the Department, with all transactions of the Department accounted for as one enterprise fund. All significant intersystem accounts and transactions have been eliminated.

During fiscal year 2002, the Department adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements: No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34; and No. 38, Certain Financial Statement Note Disclosures.

These GASB statements required the presentation of a Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: (1) the classification of the Equity section of the balance sheet into Net Assets with categories of Invested in capital assets, net of related debt, Restricted and Unrestricted; (2) the statement of revenues, expenses and changes in net assets formatted to report changes in net assets in place of changes in retained earnings; and (3) additional note disclosures to the financial statements. The financial statements for the year

ended September 30, 2001 were restated to conform with the above GASB statements.

APPLICATION OF FASB STANDARDS

GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, offers the option of following all Financial Accounting Standards Board (FASB) standards issued after November 30, 1989, unless the latter conflict with or contradict GASB pronouncements, or not following FASB standards issued after such date. The Department elected the option not to follow FASB standards.

OPERATING/NONOPERATING REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing water and wastewater services. Nonoperating revenues and expenses include capital, financing, investing and other activities not related to the provision of water and wastewater services.

REVENUE RECOGNITION

All water and wastewater revenues are recognized when the related services are provided. Unbilled receivables have been estimated and accrued as revenue from the date of last reading of the meters based on the billing cycle. Unbilled accounts receivable were approximately \$21.8 million and \$23 million as of September 30, 2002 and 2001, respectively.

CAPITAL ASSETS

Property acquired with an initial, individual cost of \$750 or more and an estimated useful life in excess of one year is capitalized at cost. Major outlays for construction of capital assets and improvements are capitalized at cost. Expenditures for maintenance and repairs are expensed as incurred. Property contributions received from municipalities are recorded as capital assets by the Department at the acquisition cost to the municipality. Property contributed in aid of construction is capitalized at its estimated fair market value on the date received.

Annualized depreciation expense, expressed as a percent of depreciable capital assets, was 3.2% and 3.1% for each of the fiscal years ended September 30, 2002 and 2001, respectively. The Department utilizes the composite straight-line depreciation method with normal retirements charged to accumulated depreciation, and no gain or loss is recognized on retirements. Assets with a change in estimated life are depreciated based on net book value over the remaining life of the asset. Estimated useful lives of capital assets in service are as follows:

	System	Wastewater <u>System</u> 'ears)
Structures and	· ·	,
improvements	50	15-50
Equipment	3-30	3-20
Transmission mains and		
accessories	50-100	25-100

INVESTMENTS

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, the Department has opted to report money market and non-participating investments, with remaining maturities of one year or less at the time of purchase, at amortized cost which approximates market.

The Local Government Surplus Funds Trust Fund Investment Pool (LGSF Pool) is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration (SBA) for the administration of the LGSF Pool. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the SBA. The LGSF Pool is a "2a-7 like" pool, and its account balance (amortized cost) can be used as fair value for financial reporting. The reported value of the LGSF Pool is the same as the fair value of the pool shares.

All other investments are carried at fair value. The net increase in the fair value of investments is included as part of interest income in the accompanying statements of revenues, expenses and changes in net assets.

STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, the Department considers all highly liquid pooled investments with a maturity of three months or less when purchased to be cash equivalents.

INTEREST ON INDEBTEDNESS

Interest is charged to expense as incurred except for interest related to borrowings used for construction projects which is capitalized, net of interest earned on construction funds borrowed. Interest incurred during the fiscal years ended September 30, 2002 and 2001 was \$90.5 million and \$89.5 million, respectively. Of these amounts, \$10.6 million and \$7.2 million were capitalized in fiscal years 2002 and 2001, respectively, net of interest earned on construction funds from tax-exempt borrowings of \$3.6 million and \$7.2 million in fiscal years 2002 and 2001, respectively.

The Department enters into interest rate swap agreements to modify interest rates on outstanding debt. The only related amounts recorded in the financial statements are the net interest expense along with amortization of fees paid or received resulting from these agreements.

BOND DISCOUNT AND ISSUANCE COSTS

Discounts on bonds and notes payable are amortized using the straight-line method over the life of the related bond issuances or term of the notes since the results are not significantly different from the interest method of amortization. Bond issuance costs are capitalized and amortized over the life of the bonds in a manner similar to discounts.

INVENTORY

Materials and supplies inventories are stated at the lower of average cost or market.

CAPITAL CONTRIBUTIONS

Effective October 1, 2000, the Department adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires recognition of external capital contributions to proprietary funds as revenues, not contributed capital.

GRANTS FROM GOVERNMENT AGENCIES

The Department records grants when all applicable eligibility requirements have been met. This normally occurs as amounts are expended and become reimbursable from the granting agency.

PENSION PLAN

The Department contributes to the Florida Retirement System, a cost-sharing multi-employer plan. Contributions are expensed as incurred.

COMPENSATED ABSENCES

The Department accounts for compensated absences by accruing a liability for employees' compensation for future absences according to the guidelines of GASB Statement No. 16, Accounting for Compensated Absences.

COST ALLOCATION

Certain engineering overhead and other costs are generally allocated to capital projects and operating expenses using standard rates developed by independent consultants. The rate is based on various allocation bases which bear reasonable relation with the type of allocable expenditure.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Department pools all cash, cash equivalents and investments, with the exception of certain amounts which are required to be held in trust and escrow accounts under

the terms of bond ordinances and loan agreements. Various self-balancing account groups are participants in such pooling, sharing on a pro-rata basis in the pooled earnings, according to their respective average monthly balances.

DEPOSITS

The carrying amounts of the Department's local deposits were \$19.9 million and \$2.6 million as of September 30, 2002 and 2001, respectively. The bank balances at local depositories were \$25.8 million and \$8.8 million as of September 30, 2002 and 2001, respectively, consisting of demand deposit accounts only. All deposits are fully insured by Federal Depository Insurance and a multiple financial institution collateral pool required by Chapter 280 Florida Statutes, "Florida Security for Public Deposits Act". Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with a State-approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

INVESTMENTS

Department investments are made by the County in accordance with the provisions of Chapter 125.31 Florida Statutes and County Ordinance 84-47, "Investment and Reinvestment of Surplus Funds". Authorized investments include obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, certificates of deposit and the Local Government Surplus Funds Trust Fund Investment Pool.

Investments can be grouped into three categories, based on who holds the securities, to give an indication of the level of risk assumed by the entity at year-end: (1) insured or registered, or securities held by the entity or its agent in the entity's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Investments classified as U.S. government and agency securities, commercial paper, bankers' acceptances and certificates of deposit were held by the Department's custodial bank in the Department's name, falling under the first risk category described above.

Guaranteed investment contracts (GIC) are not subject to credit risk classification because they are direct contractual investments and are not securities. These GIC provide for a guaranteed return on investments over a specified period of time. The Local Government Surplus Funds Trust Fund Investment Pool (LGSF Pool) is also not subject to credit risk classification because it is a "2a-7 like" pool.

The Department's investments at September 30, 2002 and 2001, including cash equivalents in the amount of \$214.2 million and \$126 million, respectively, are shown in the following table (in thousands).

	2002 <u>Fair Value</u>	2001 Fair Value
U.S. government and		
agency securities	\$402,861	\$ 442,375
Certificate of deposit	3,015	-
Commercial paper	290,399	236,884
Bankers acceptances	-	9,985
GIC	189,537	303,792
LGSF pool	100,153	53,050
Total investments	<u>\$985,965</u>	<u>\$1,046,086</u>

3. RESTRICTED ASSETS

Certain bond ordinances and loan agreements require the Department to establish accounts to be used in accounting for proceeds and collateral pledged as a result of the various issues of debt. In many cases, the applicable ordinances refer to the restricted accounts as "funds". Such accounts are not "funds" as defined by the National Council on Governmental Accounting (NCGA) Statement No. 1: Governmental Accounting and Financial Reporting Principles and, therefore, are not funds for financial reporting purposes, but are maintained as separate accounts. Restricted assets at September 30, 2002 and 2001 are presented in the following table (in thousands):

	<u>2002</u>	<u>2001</u>
Restricted Assets		
Debt Service	\$211,125	\$210,397
Construction	395,358	417,936
Renewal and Replacement	68,778	69,599
Plant Expansion	94,625	67,389
Self-Insurance	<u>19,087</u>	<u>19,494</u>
Total Assets	\$ <u>788,973</u>	\$784,815

4. CAPITAL ASSETS

Capital asset activity during fiscal years 2001 and 2002 was as follows (in thousands):

	Balance 9/30/00	Additions 20	001 Deletions	Balance 9/30/01	Additions	02 Deletions	Balance 09/30/02
Capital assets, not being depreciated:							
Land	\$ 30,390	-	-	30,390	-	-	30,390
Construction work in progress	338,861	182,383	(172,574)	348,670	156,977	(160,047)	345,600
Total capital assets, not being depreciated	369,251	182,383	(172,574)	379,060	156,977	(160,047)	375,990
Capital assets, being depreciated:							
Structures and improvements	2,689,373	149,680	(6,218)	2,832,835	116,964	(8,792)	2,941,007
Equipment	624,127	22,894	(7,067)	639,954	43,083	(4,563)	678,474
Total capital assets, being depreciated	3,313,500	172,574	(13,285)	3,472,789	160,047	(13,355)	3,619,481
Less accumulated depreciation:							
Structures and improvements	(582,183)	(70,293)	6,218	(646,258)	(73,508)	8,796	(710,970)
Equipment	(283,007)	(38,977)	6,899	(315,085)	(41,134)	4,502	(351,717)
Total accumulated depreciation	(865,190)	(109,270)	13,117	(961,343)	(114,642)	13,298	(1,062,687)
Total capital assets, being depreciated, net	2,448,310	63,304	(168)	2,511,446	45,405	(57)	2,556,794
Total capital assets, net	\$ 2,817,561	245,687	(172,742)	2,890,506	202,382	(160,104)	2,932,784

5. LONG-TERM DEBT

Long-term debt includes various bonds, loans and notes payable which have been issued or approved by the County for the improvement of the Department's water and wastewater infrastructure, and defeasance of outstanding debt. General covenants, along with debt service requirements, are disclosed below. See Note 3, Restricted Assets, for a discussion of the accounts used in accounting for proceeds and collateral pledged as a result of the issuance of the various forms of debt.

The Department's debt instruments contain various covenants and restrictions, which among other things, (1) prohibit the Department from taking any action that could jeopardize its tax-exempt status, and (2) require the Department to meet certain financial tests. Management believes that the Department was in compliance with all such covenants and restrictions at September 30, 2002.

DADE COUNTY REVENUE REFUNDING BONDS, SERIES 1993 On December 23, 1993, \$409.4 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 1993 were issued to pay issuance costs and to refund or advance refund various obligations.

The Series 1993 Refunding Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2013, with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2002.

DADE COUNTY REVENUE BONDS, SERIES 1994

On February 4, 1994, \$431.7 million of Dade County Water and Sewer System Revenue Bonds, Series 1994, with variable interest rates, were issued to finance capital improvements to the water and wastewater systems. The variable rate is set by the Remarketing Agent (Smith Barney Shearson Inc.) based on the weekly rate the bond is sold for in that time period.

The Series 1994 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on the first Wednesday of October through the year 2022, with semi-annual interest due on the first Wednesday

of April and October of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2002.

DADE COUNTY REVENUE BONDS, SERIES 1995

On October 19, 1995, \$346.8 million of Dade County Water and Sewer System Revenue Bonds, Series 1995 were issued to finance capital improvements to the water and wastewater systems.

The Series 1995 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2025 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2002.

DADE COUNTY REVENUE BONDS. SERIES 1997

On January 30, 1997, \$437.2 million of Dade County Water and Sewer System Revenue Bonds, Series 1997 were issued to finance capital improvements to the water and wastewater systems.

The Series 1997 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2026 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2002.

MIAMI-DADE COUNTY REVENUE BONDS, SERIES 1999A

On May 5, 1999, \$150 million of Dade County Water and Sewer System Revenue Bonds, Series 1999A were issued to finance capital improvements to the water and wastewater systems.

The Series 1999A Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2029 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2002.

CHANGES IN LONG-TERM LIABILITIES

A summary of the long-term liability activity during fiscal years 2001 and 2002 is presented in the following table (dollars in thousands):

Description	Outstanding Rate	Maturity Date	Balance 09/30/00		001 Reductions	Balance 09/30/01		002 Reductions	Balance 09/30/02	Due in 2003
Dade County Revenue Bo	onds									
Series 1993	4.40%-5.00%	2013	\$ 332,475	-	17,570	314,905	-	18,445	296,460	19,260
Series 1994	Variable*	2022	421,255	-	625	420,630	-	660	419,970	695
Series 1995	4.10%-6.25%	2025	341,360	-	2,900	338,460	-	3,030	335,430	3,165
Series 1997	4.50%-6.25%	2026	431,320	-	6,170	425,150	-	6,480	418,670	6,800
Series 1999A	5.00%	2029	150,000	-	-	150,000	-	-	150,000	-
Less: Unamortized dis-	count		(29,300)	-	(1,252)	(28,048)	-	(1,253)	(26,795)	-
Deferred amount	s on refunding		(14,109)	-	(778)	(13,331)	-	(779)	(12,552)	-
Total revenue bonds			1,633,001	-	25,235	1,607,766	-	26,583	1,581,183	29,920
State Loan Obligations										
State Revolving Fund	2.56%-4.17%	2019	120,105	19,743	6,718	133,130	22,365	8,530	146,965	10,436
Notes Payable										
City of North Miami	6.00%	2007	1,284	-	166	1,118	-	177	941	187
Total long-terr	n debt		1,754,390	19,743	32,119	1,742,014	22,365	35,290	1,729,089	40,543
Other liabilities:										
Compensated absences	S		18,005	7,158	5,893	19,270	7,942	6,307	20,905	6,842
Self-insurance			21,967	(765)	2,250	18,952	1,858	1,813	18,997	3,215
Total long-tern	n liabilities		\$ 1,794,362	26,136	40,262	1,780,236	32,165	43,410	1,768,991	50,600

 $[\]boldsymbol{*}$ Variable rates range from .85%-2.15% and 1.85%-4.50% in fiscal years 2002 and 2001, respectively.

DEBT SERVICE REQUIREMENTS

The Department's debt service requirements to maturity, including current portion, at September 30, 2002 are as follows (in thousands):

Maturing in	_Reven	ue Bonds_	_State	Loans	Notes I	Payable_		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Debt
2003 \$	29,920	85,744	10,436	4,467	187	51	40,543	90,262	130,805
2004	31,275	84,345	10,802	4,254	199	40	42,276	88,639	130,915
2005	32,720	82,812	11,115	4,219	211	28	44,046	87,059	131,105
2006	34,270	81,157	11,565	3,639	224	15	46,059	84,811	130,870
2007	36,035	79,309	11,274	3,261	120	2	47,429	82,572	130,001
2008-2012	210,965	365,042	55,233	10,905	_	-	266,198	375,947	642,145
2013-2017	272,595	301,523	34,142	2,813	_	-	306,737	304,336	611,073
2018-2022	356,545	215,100	2,398	68	-	-	358,943	215,168	574,111
2023-2027	466,205	102,738	-	-	_	-	466,205	102,738	568,943
2028-2030	150,000	15,244	-	-	-	-	150,000	15,244	165,244
	1,620,530	1,413,014	146,965	33,626	941	136	1,768,436	1,446,776	3,215,212
Unamortized discount and deferred	1								
amounts	(39,347)	-	-	-	-	-	(39,347)	-	(39,347)
Total \$	1,581,183	1,413,014	146,965	33,626	941	136	1,729,089	1,446,776	3,175,865

STATE REVOLVING FUND

Under the State Revolving Fund program, the Department has received various loan commitments for the construction of water and wastewater treatment facilities. Draws to date against committed loans as of September 30, 2002 and repayment amounts as required by the loan agreements are detailed in the following table (in thousands):

		Draws
Loan #	Commitments	to date
375310	\$ 45,906	\$ 45,906
377400	36,402	36,402
377450	27,831	27,831
377470	11,959	11,959
377490	3,098	3,098
377500	28,523	23,738
377650	13,234	2,604
377670	10,251	3,103
377860	6,200	556
377870	6,093	3,286
37788P	18,269	3,252
300010	28,788	24,668
300080	5,498	4,291
	\$242,052	\$190,694

The Florida Department of Environmental Protection approved final amendments for loans #375310 and #377400 on June 7, 1999, for loan #377470 on August 21, 2000, for loan #377450 on May 18, 2001 and for loan #377490 on May 2, 2001. These loans are shown above but have been closed-out. Therefore, no further draws will be made against these specific loans, only payments.

The Department has agreed to maintain rates, together with other pledged revenues, sufficient to provide "net revenues" equal to at least 1.15 times the annual loan payments after meeting the primary debt service requirements. Reserve and debt service funding requirements, as required by the agreement, were met in fiscal year 2002.

NOTES PAYABLE

Outstanding notes payable represents a non-collateralized note issued in 1979 in connection with the acquisition of the North Miami sanitary sewage ocean outfall line. Such note is subordinate debt maturing in 2007.

INTEREST RATE SWAP AGREEMENTS

The Department is currently a party to two interest rate swap agreements relating to the Series 1993 Revenue Refunding Bonds and one swap relating to the Series 1994 Revenue Bonds. The first swap agreement relating to the Series 1993 Bonds became effective on August 26, 1998, and provided for the Department to receive payments at a fixed rate of 4.85% and to make payments at a variable rate based on the BMA index. It included an option, exercisable by the counterparty, for the Department to receive payments at a variable rate based on the BMA index and to make payments at a fixed rate of 4.40%. This agreement was amended on February 26, 2001 to provide for: the extension of the termination date to June 15, 2020; an option in favor of the counterparty to terminate the agreement on June 15, 2008; an increased fixed rate of 4.902%; an additional fixed rate of 0.323% which survives the termination option; and a notional amount declining from \$215 million as of September 19, 2001, to \$154 million as of September 19, 2019, in accordance with the schedule included in the amendment. On September 20, 2001, the counterparty exercised the option to receive payment from the Department at the fixed rate and to make payments on the basis of the variable rate.

For the second swap agreement relating to the Series 1993 Bonds, as amended on July 18, 2002, the counterparty pays the Department on the basis of the BMA index on an initial notional amount of \$200 million. The Department pays the counterparty on the same notional amount based on the BMA index plus a calculated adjustment factor. The notional amount will be reduced on each October 1, commencing October 1, 2021 as set forth in a predetermined reduction schedule.

For the swap agreement relating to the Series 1994 Bonds, calculations are based on a notional amount that is specified in the calculation amount schedule incorporated in the bond documents. This notional amount, which changes periodically, is set at \$420 million for the current fiscal year. The Department owes interest calculated at a 5.28% annual rate to the counterparty, and in return the counterparty owes the Department interest at a variable rate that matches the variable rate payable on the bonds.

On September 23, 1997, a settlement was reached between Smith Barney and the Securities and Exchange Commission regarding the interest rate swap transaction entered into in connection with the Series 1994 bonds. The settlement provided for a payment to the County in the amount of \$2 million and the foregoing of future remarketing fees related to the swap in the amount of \$3.1 million.

The Department continues to pay interest to the bond-holders at the rates provided by each bond issue. However, during the term and for the notional amount of each interest rate swap agreement, the Department will effectively pay the rate established under the agreements. The debt service requirements to maturity presented in this note are shown net of these agreements.

If the counterparties to the swaps default, or if the swaps are terminated, the Department will be exposed to the rates established in each bond issue. A termination of any swap agreement may result in the Department making or receiving a termination payment. The counterparties to the interest rate swap agreements are large international brokerage and insurance firms and, accordingly, the Department believes there is little risk of counterparty nonperformance.

DEFEASED DEBT

Bonds, Series 1992

State Bond Loan, Srs. X

On December 23, 1993, the Department defeased the bonds listed in the table below (in thousands). The proceeds of the new bond issue, Dade County Water and Sewer System Revenue Bonds, Series 1993, were invested in direct obligations of the U.S. government and placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded obligations. Accordingly, these refunded obligations are considered to be defeased and the assets held in trust have not been included in the accompanying financial statements.

	Final Maturity Defeased	Principal Amount Defeased	1 '	Balance
Dade County Water Syste	em			
Revenue Refunding				

06/01/04

07/01/12

6. PENSION PLAN

The Department, as an agency of the County, participates in the Florida Retirement System (the FRS), a cost-sharing multi-employer public employment retirement system, which covers substantially all of the Department's full-time and part-time employees.

The FRS was created in 1970 by consolidating several employee retirement systems. The FRS is non-contributory and is administered by the State of Florida. All eligible employees as defined by the State of Florida who were hired after 1970, and those employed prior to 1970 who elected to be enrolled, are covered by the FRS.

Benefits under the plan vest after six years of service. Employees who retire at or after age 62, with six years of credited service, are entitled to an annual retirement benefit, payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits. These benefit provisions and all other requirements are established by State of Florida statutes.

The covered payroll for Department employees in the FRS for the years ended September 30, 2002 and 2001 was \$99.3 million and \$95.9 million, respectively, while the Department's total payroll was \$102.9 million and \$101.9 million for fiscal 2002 and 2001, respectively. Pension costs of the Department as required and defined by Florida statute ranged between 5.8% and 16.1% of gross salaries during fiscal 2002 and between 7.3% and 18.4% of gross salaries during fiscal 2001. For the years ended September 30, 2002, 2001, and 2000, the Department's actual contributions met all required contributions. These contributions aggregated \$7.1 million, \$8.4 million and \$9 million, respectively, which represented 7.2%, 8.7% and 10.1% of covered payroll, respectively, and 0.4%, 0.5% and 0.4% of the total contributions required of all participating agencies, respectively, for fiscal years 2002, 2001 and 2000.

Ten-year historical trend information is presented in the FRS' June 30, 2002 annual report. This information is useful in assessing the FRS' accumulation of sufficient assets to pay pension benefits as they become due. A copy of the Florida Retirement System' annual report

43,700

\$36,245 Redeemed \$12,835

Redeemed

can be obtained by writing to the Department of Management Services, Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, FL 32399-1560 or by calling (850) 488-5706.

7. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related injuries or illnesses to employees; natural disasters and employee health and accident. During the year ended September 30, 1987, the Department established a self-insurance program for general and automobile liability exposures, as provided by Section 706 of County Ordinance 78-82, as amended.

Claims are administered by the County's Risk Management Division, and the program is based upon an actuarial study performed annually by consulting actuaries. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities also include an amount for claims that have been incurred but not reported (IBNR). Because actual claims liabilities depend on such complex factors as inflation, change in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

Changes in the balance of claim liabilities for the general and automobile self-insurance program during fiscal years 2002 and 2001 were as follows (in thousands):

	<u>2002</u>	<u>2001</u>
Balance at beginning of year Claims and changes	\$12,743	\$15,560
in estimates Less: Payments	1,256 (478)	(1,969) (848)
Balance at end of year	<u>\$13,521</u>	<u>\$12,743</u>

The Department participates in the workers' compensation self-insurance program of the County, administered by the Risk Management Division. Risk Management charges a "premium" to each County department based on amounts necessary to provide funding for expected payments during the fiscal year. The estimate of IBNR losses is performed by an independent actuary. The Department maintains a liability in the amount of \$5.5 million and \$6.2 million as of September 30, 2002 and 2001, respectively, for possible funding of these IBNR losses. The County maintains no excess coverage with independent carriers for workers' compensation. The Department's total self-insurance liability was \$19 million as of September 30, 2002 and 2001.

The Department also participates in the County's group health and life self-insurance program, administered by an independent administrator. The County charges a uniform "premium" per employee to each County department based on recent trends in actual claims experience and makes provisions for catastrophic losses. Current year premiums are adjusted for County-wide prior year actual claims experience.

The Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. CONTRIBUTIONS

A schedule of contributions during fiscal years 2002 and 2001 is presented below (in thousands):

	<u>2002</u>	<u>2001</u>
Contributed Facilities		
Developers	\$20,224	\$14,737
Customers	8,815	5,334
Fire Hydrants	-	548
Connection charges	28,138	26,466
Other		489
Total additions	\$57,177	\$47,574

9. RELATED PARTY TRANSACTIONS

The Department provides water and wastewater services to other County departments as part of the normal course of business, based on regular retail rates. The Department also provides billing services to other County departments. The County provides various services to the Department which are charged using direct and indirect cost allocation methods. The Department reimburses the

County (General Fund) for certain administrative services. The following table presents a list of providers of services and respective charges for the years ended September 30, 2002 and 2001 (in thousands):

	2002	<u>2001</u>
General Services Administration	\$15,063	\$10,489
General Fund	10,737	10,588
Information Technology	6,695	8,473
Transportation	2,970	-
Solid Waste	2,107	1,417
Fire Rescue	1,504	24
Public Works	689	2,901
Other County Departments	3,569	3,545

In relation to the above payments, the Department had related payables of \$7.9 million and \$7.1 million at September 30, 2002 and 2001, respectively. The Department also had receivables from other County departments amounting to \$4.3 million and \$4.5 million at September 30, 2002 and 2001, respectively. The Department has every intention of paying the outstanding payables on a timely basis, and is confident it will collect the outstanding receivables.

In addition, the Department transferred \$33 million and \$25.5 million to the General Fund in fiscal years 2002 and 2001, respectively. The transfers to the General Fund have been classified in the financial statements as Transfers to County's General Fund.

The Department has also entered into other transactions with various County entities. These transactions arise from the normal course of business and in connection with the management of ongoing projects.

10. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION

The Department had contractual commitments of \$44.1 million for plant and infrastructure construction at September 30, 2002.

LEGAL CONTINGENCIES

The County is a defendant in various actions brought by parties in the normal course of business of the Department. Based on consultation with the County Attorney's Office, it is the opinion of management that the

ultimate resolution of these suits would not materially affect the financial position of the Department or its ability to conduct its business.

FEDERAL GRANTS

Federal grant awards are audited under the provisions of the Single Audit Act and Office of Management and Budget Circular A-133 to determine that the Department has complied with the terms and conditions of the grant awards. Federal grants received are also subject to audit by the federal grantor agency. It is management's opinion that no material liabilities will result from any such audits.

REBATABLE ARBITRAGE EARNINGS

Federal tax law requires that arbitrage interest earnings be remitted to the federal government, unless the local government qualifies for an exemption. As of September 30, 2002 and 2001, the Department has recorded obligations to rebate approximately \$2.3 million and \$4.9 million, respectively, of interest earned on bond proceeds invested in taxable securities in excess of interest costs. These arbitrage rebates are payable five years from the date of the bond issuance and each five years thereafter. The ultimate amount of the obligation, if any, will be determined based on actual interest earned.

SETTLEMENT AGREEMENTS

In 1993, the County entered into a settlement agreement with the Florida Department of Environmental Protection (FDEP) resulting in very limited restrictions on new sewer construction in certain areas of the County until adequate capacity becomes available in the wastewater system. Subsequently, in 1994 and 1995, two consent decrees were entered into with the U.S. Environmental Protection Agency (EPA) whereby the Department accelerated its improvement program of the wastewater system, subject to a schedule of stipulated penalties if certain established completion dates are not met.

In December 1997, an Administrative Order on Consent (AOC) with the EPA became effective which addresses alleged violations of federal and state law regarding underground treated sewage injection wells

and effluent discharges at a Department wastewater treatment plant. As required by the AOC, the Department has been conducting hydrogeological studies to determine the nature of the concerns and take appropriate action, if necessary. A Consent Order with FDEP, which is intended to operate in conjunction with the AOC, was executed by the parties and became effective on March 1, 1999. This Consent Order serves as a mechanism by which the Department can obtain the permits needed to perform any work required by the AOC. Effective August 1, 2002, the AOC was terminated and the EPA asked the FDEP to address the compliance of the facility through a new Consent Order. At the present, the Department and the FDEP are negotiating a new Consent Order.

11. SUBSEQUENT EVENTS

New miscellaneous fees and charges, as well as revisions to the retail rate structure became effective October 1, 2002. Management believes that the retail rate structure will be revenue neutral, while making fundamental changes in the methods used to calculate customers' bills.

Church & Tower is a contractor which performed paving work for the Department under Contract # W-755 ("W-755"). The Department incurred expenses in the amount of \$19 million in fiscal year 1997 and \$18.2 million in fiscal year 1996 under W-755. The County and State Attorney's Office conducted investigations of all payments and outstanding invoices under W-755 due to detected discrepancies. As a result of these investigations and a non-binding mediation process, a settlement was approved in January 2003. Under the approved settlement, the Department will receive a net payment from Church & Tower in the amount of \$2.3 million and Church & Tower will dismiss all claims, including \$2.5 million relating to invoices which were frozen and unpaid.

Bond Ordinance 93-134 requires the Department to establish certain restricted accounts to be used in accounting for proceeds and collateral pledged as a result of the debt. In many cases, the bond ordinance refers to the restricted accounts as "funds". Such accounts are not "funds" as defined by *NCGA Statement 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes.

Similarly, the Water and Wastewater Systems do not meet the above referenced definition and, therefore, combining statements are not presented. The following system financial statements are furnished solely as supplementary information and are not required by GAAP.

WATER SYSTEM Balance Sheets

	September 30,	2002	(T. 1)	2001
ASSETS			(In thousands)	
CURRENT ASSETS: Cash and cash equivalents Investments Accounts receivable (net of allowance for uncollectible account	ts of	\$ 72,888 109,416		\$ 47,566 181,311
\$9.9 million in 2002 and \$9.8 million in 2 Inventory of materials and supplies		35,874 12,360	-	25,371 11,563
Total current assets		230,538	-	265,811
NONCURRENT ASSETS:				
RESTRICTED ASSETS: Cash and cash equivalents Investments Contracts receivable		46,659 274,976 96	_	27,489 284,855 577
Total restricted assets		321,731	-	312,921
DEFERRED CHARGES: Deferred debt issue costs, net Other deferred charges, net Total deferred charges		5,049 2,445 7,494	- -	5,186 2,441 7,627
CAPITAL ASSETS: Land Structures and improvements Equipment		10,715 1,076,901 213,098	_	10,715 1,042,025 206,949
Utility plant in service before depreciation		1,300,714		1,259,689
Less accumulated depreciation		282,360	-	259,240
Net utility plant in service		1,018,354		1,000,449
Construction work in progress		138,672	-	109,123
Total capital assets		1,157,026	-	1,109,572
Total noncurrent assets		1,486,251_	-	1,430,120
Total assets		<u>\$ 1,716,789</u>	=	\$ 1,695,931

(Continued)

WATER SYSTEM Balance Sheets

(Continued)	September 30,	2002		2001
Liabilities			(In thousands)	
CURRENT LIABILITIES (PAYABLE FROM CURREN Accounts payable and accrued expense Customer and developer deposits Current portion of long-term debt Accrued interest payable Rebatable arbitrage earnings Liability for compensated absences Other liabilities		\$ 14,284 10,806 1,385 279 1,452 2,136 573		\$ 14,841 11,326 230 622 1,655 1,933 569
Total current liabilities (payable fr	rom current assets)	30,915	-	31,176
CURRENT LIABILITIES (PAYABLE FROM RESTRIC Accounts payable and accrued expense Retainage payable Current portion of long-term debt Accrued interest payable Liability for self-insurance		6,813 3,116 14,814 12,281 3,215		9,049 3,212 14,157 12,567 3,500
Total current liabilities (payable fr	om restricted assets)	40,239		42,485
NONCURRENT LIABILITIES: Revenue bonds payable, net State loan obligations, net Liability for self-insurance Liability for compensated absences		438,345 28,397 15,782 5,344		452,242 15,179 15,452 4,926
Total noncurrent liabilities		487,868		487,799
Total liabilities		559,022		561,460
NET ASSETS				
Invested in capital assets, net of related Restricted for:	l debt	830,706		793,636
Capital projects Debt service Unrestricted		70,518 58,760 197,783		51,458 56,904 232,473
Total net assets		1,157,767_		1,134,471
Total liabilities and net assets		<u>\$ 1,716,789</u>		\$ 1,695,931

MIAMI-DADE WATER & SEWER DEPARTMENT

WATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

F	For the years ended September 30,	2002	(T.)	2001
OPERATING REVENUES: Retail Wholesale Other revenues Total operating revenue	es	\$ 121,632 20,236 9,227 151,095	(In thousands) \$	124,473 20,311 9,525 154,309
OPERATING AND MAINTENANCE EXP Source of supply Power and pumping Purification Transmission and distribution Customer accounting Customer service General and administrative	on	4,728 1,803 34,466 19,357 4,032 8,546 11,412	_	4,771 1,558 32,640 18,229 4,001 8,430 9,430 79,059
Operating income before DEPRECIATION	re depreciation	66,751 32,347	_	75,250 30,916
Operating income NON-OPERATING REVENUES (EXPENSE Interest income Interest expense Amortization of debt issue of Operating grants		34,404 16,943 (21,089) (308) 1,447	_	32,560 (20,932) (308) 916
Income before contributions Transfers to County's General Fund	tions and transfers	31,397 21,168 (10,855)	_	56,570 15,199 (8,235)
Net assets at beginning of year Transfer (from) to reserves		41,710 1,134,471 (18,414)	_	1,086,369 (15,432)
Net assets at end of year		<u>\$ 1,157,767</u>	<u></u>	1,134,471

WATER SYSTEM

Statements of Cash Flows

For the years ended September 30,	<u>2002</u>		2001
		(In thousands)	
Cash FLOWS FROM OPERATING ACTIVITIES: Cash received from customers Cash paid to suppliers for goods and services Cash paid to employees for services Transfer (from) to reserves	\$ 142,185 (47,733) (39,948) (18,414)	\$	159,385 (44,959) (40,150) (15,432)
Net cash provided by operating activities	<u> 36,090</u>		58,844
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Operating grants received Transfers to County's General Fund Net cash used in non-capital financing activities	554 (10,855) (10,301)	_	358 (8,235) (7,877)
Net cash used in non-capital infancing activities	(10,501)		(7,877)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Proceeds from bond issues, loan agreements and notes Principal payments - bonds, loans and notes Interest paid Proceeds from sale of property, plant and equipment Acquisition and construction of capital assets Contributions received	13,873 (14,289) (22,363) 29 (66,272) 9,212	_	10,596 (13,419) (21,988) 84 (65,430) 7,369
Net cash used in capital and related financing activities	(79,810)		(82,788)
CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of investment securities Proceeds from sale and maturity of investment securities Interest on investments Net cash provided by investing activities	(580,590) 659,424 19,679 98,513	_	(458,647) 500,196 30,275 71,824
Net increase in cash and cash equivalents Cash and cash equivalents at beginning of year	44,492 75,055		40,003 35,052
Cash and cash equivalents at end of year	<u>\$ 119,547</u>	<u>\$</u>	75,055

(Continued)

Statements of Cash Flows

(Continued)	For the years ended September 30,	2002		2001
			(In thousands)	
RECONCILIATION OF OPER	ATING INCOME TO NET CASH PROVIDED BY			
OPERATING ACTIVITIES:				
Operating income		\$ 34,404		\$ 44,334
· ·	concile operating income to net cash			
provided by opera	ating activities:			
Depreciation		32,347		30,916
	collectible accounts	697		-
Transfer (from)		(18,414)		(15,432)
(Increase) decre	ase in assets:			
Accounts rec	eivable	(10,331)		3,171
Inventory of	materials and supplies	(797)		1,021
Other deferre	d charges	(4)		(1,678)
Increase (decrea	se) in liabilities:			
Accounts pay	able and accrued expenses	(556)		(826)
Customer and	developer deposits	(1,583)		157
Accrued inter	rest payable	(343)		(2)
Liability for o	compensated absences	621		434
Other liabiliti	es	4		(236)
Liability for s	self-insurance	 45		(3,015)
Net cash prov	rided by operating activities	\$ 36,090		\$ 58,844

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$12.4 million and \$7.8 million in fiscal years 2002 and 2001, respectively.

The (decrease) increase in the fair value of investments were (\$723,998) and \$2.4 million in fiscal years 2002 and 2001, respectively.

WATER SYSTEM

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2002

(In thousands)

	Budget	<u>Actual</u>	Variance favorable (unfavorable)
Source of supply	\$ 5,983	\$ 4,728	\$ 1,255
Power and pumping	2,392	1,803	589
Purification	39,117	34,466	4,651
Transmission and distribution	21,926	19,357	2,569
Customer accounting	4,094	4,032	62
Customer service	11,334	8,546	2,788
General and administrative	15,470_	11,412_	4,058_
Totals	\$ 100,316	\$ 84,344	\$ 15,972

Balance Sheets

	September 30,	2002	(In thousands)	2001
ASSETS			(III tilousalius)	
CURRENT ASSETS: Cash and cash equivalents Investments Accounts receivable		\$ 3,735 32,071		\$ 3,449 32,598
(net of allowance for uncollectible accou \$10.9 million in 2002 and \$10.8 million Inventory of materials and supplies	in 2001)	36,741 8,232		47,273 7,568
Total current assets		80,779		90,888
NONCURRENT ASSETS:				
RESTRICTED ASSETS: Cash and cash equivalents Investments Contracts receivable EPA grants receivable Total restricted assets		111,527 355,269 370 76 467,242		50,169 421,355 370 - 471,894
DEFERRED CHARGES: Deferred debt issue costs, net Other deferred charges, net Total deferred charges		11,715 1,309 13,024	·	12,275 - 12,275
CAPITAL ASSETS: Land Structures and improvements Equipment		19,675 1,864,106 465,376		19,675 1,790,810 433,005
Utility plant in service before depreciation		2,349,157		2,243,490
Less accumulated depreciation		<u>780,327</u>		702,103
Net utility plant in service		1,568,830		1,541,387
Construction work in progress		206,928		239,547
Total capital assets		1,775,758		1,780,934
Total noncurrent assets		2,256,024		2,265,103
Total assets		\$ 2,336,803		\$ 2,355,991

(Continued)

Balance Sheets

(Continued)	September 30,	2002		2001
Liabilities			(In thousands)	
CURRENT LIABILITIES (PAYABLE FROM CO				A 21 772
Accounts payable and accrued e		\$ 23,009		\$ 21,772
Customer and developer deposit		5,173		6,530
Current portion of long-term del Accrued interest payable)i	6,237 451		5,912 450
Rebatable arbitrage earnings		896		3,248
Liability for compensated absen	ces	4,706		4,374
• •		40,472		42,286
Total current liabilities (pay	able from current assets)	40,472		42,280
CURRENT LIABILITIES (PAYABLE FROM RE				
Accounts payable and accrued e	xpenses	8,905		8,519
Retainage payable		4,297		4,954
Current portion of long-term del	ot	18,107		17,178
Accrued interest payable		32,041		32,460
Total current liabilities (pay	rable from restricted assets)	63,350		63,111
NONCURRENT LIABILITIES:				
Revenue bonds payable, net		1,112,918		1,126,909
State loan obligations, net		108,132		109,265
Notes payable, net		754		942
Liability for compensated absen	ces	8,719		8,037
Total noncurrent liabilities		1,230,523		1,245,153
Total liabilities		1,334,345		1,350,550
NET ASSETS				
Invested in capital assets, net of Restricted for:	related debt	755,896		768,981
Capital projects		99,953		81,517
Debt service		108,042		108,466
Unrestricted		38,567		46,477
Total net assets		1,002,458		1,005,441
Total liabilities and net asse	ets	\$ 2,336,803		\$ 2,355,991

MIAMI-DADE WATER & SEWER DEPARTMENT

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended September		2001
OPERATING REVENUES: Retail Wholesale Other revenues Total operating revenues	\$ 142,334 52,909 7,769 203,012	\$ 144,801 54,075 7,438 206,314
OPERATING AND MAINTENANCE EXPENSES:		
Collection system Pumping Treatment Customer accounting Customer service General and administrative	12,793 22,828 43,086 3,058 6,447 24,316	12,935 20,709 40,707 2,406 6,360
Total operating and maintenance expenses	112,528_	101,160_
Operating income before depreciation	90,484	105,154
Operating income	<u>82,295</u> 8,189	<u>78,354</u> 26,800
NON-OPERATING REVENUES (EXPENSES): Interest income Interest expense Amortization of debt issue costs Operating grants	15,877 (58,757) (568) 33	27,673 (61,356) (568) 595
Loss before contributions and transfers	(35,226)	(6,856)
Capital contributions Transfers to County's General Fund	36,009 (22,180)	32,375 (17,312)
Increase (decrease) in net assets	(21,397)	8,207
Net assets at beginning of year Transfer from (to) reserves	1,005,441 18,414	981,802 15,432
Net assets at end of year	<u>\$ 1,002,458</u>	\$ 1,005,441

Statements of Cash Flows

For the years ended Septemb	per 30, <u>2002</u>		2001
		(In thousands)	
Cash FLOWS FROM OPERATING ACTIVITIES: Cash received from customers Cash paid to suppliers for goods and services Cash paid to employees for services Transfer from (to) reserves	\$ 211,900 (51,366) (59,677) 18,414	\$	205,558 (43,194) (56,196) 15,432
Net cash provided by operating activities	119,271		121,600
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Operating grants received Transfers to County's General Fund Net cash used in non-capital financing activities	574 (22,180) (21,606)	_	(17,312) (17,312)
·			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITA Proceeds from bond issues, loan agreements and notes Principal payments - bonds, loans and notes Interest paid Proceeds from sale of property, plant and equipment Acquisition and construction of capital assets Contributions received	7,615 (22,960) (66,044) 28 (63,235) 28,437	_	8,332 (20,729) (65,285) 84 (94,420) 25,192
Net cash used in capital and related financing activ	ities <u>(116,159)</u>	<u> </u>	(146,826)
CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of investment securities Proceeds from sale and maturity of investment securities Interest on investments Net cash provided by investing activities	(357,878) 423,764 14,252 80,138	_	(825,073) 872,267 25,876 73,070
Net increase in cash and cash equivalents Cash and cash equivalents at beginning of year	61,644 53,618	_	30,532 23,086
Cash and cash equivalents at end of year	\$ 115,262	<u>\$</u>	53,618

(Continued)

WASTEWATER SYSTEM Statements of Cash Flows

(Continued)	For the years ended September 30,	2002		2001
			(In thousands)	
RECONCILIATION OF OPER.	ATING INCOME TO NET CASH PROVIDED BY			
OPERATING ACTIVITIES:				
Operating income		\$ 8,189		\$ 26,800
	concile operating income to net cash	,		,
provided by opera	. •			
Depreciation	\mathcal{E}	82,295		78,354
Provision for un	collectible accounts	542		
Amortization of	deferred charges	173		-
Transfer from (t	•	18,414		15,432
(Increase) decre		,		
Accounts rece		9,424		(450)
Inventory of r	naterials and supplies	(664)		257
Increase (decrea	se) in liabilities:			
Accounts pay	able and accrued expenses	1,238		379
Customer and	developer deposits	(1,356)		(8)
Accrued inter	est payable	2		5
Liability for c	ompensated absences	 1,014		 831
Net cash prov	ided by operating activities	 119,271		\$ 121,600

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$7.5 million and \$7.1 million in fiscal years 2002 and 2001, respectively.

The (decrease) increase in the fair value of investments were (\$664,196) and \$2.4 million in fiscal years 2002 and 2001, respectively.

Schedule of Operating

and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2002

(In thousands)

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Collection system	\$ 14,830	\$ 12,793	\$ 2,037
Pumping	23,529	22,828	701
Treatment	44,320	43,086	1,234
Customer accounting	3,031	3,058	(27)
Customer service	8,552	6,447	2,105
General and administrative	25,275_	24,316_	959_
Totals	\$ 119,537	\$ 112,528	\$ 7,009

STATISTICA L section

COMBINED WATER AND WASTEWATER SYSTEMS

Schedule of Revenues and Expenses

Last Ten Fiscal Years

(in thousands)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
OPERATING REVENUES:										
Retail \$	263,966	269,274	285,791	283,057	276,740	283,447	263,285	244,404	209,478	172,597
Wholesale	73,145	74,386	75,523	76,861	78,233	82,507	72,480	67,294	53,494	46,553
Other	16,996	16,963	18,078	17,834	17,649	16,651	15,293	13,061	10,821	8,292
Total operating revenues	354,107	360,623	379,392	377,752	372,622	382,605	351,058	324,759	273,793	227,442
OPERATING AND MAINTENANCE EXPENSES:										
Source of supply	4,728	4,771	5,015	4,320	4,396	3,757	3,643	4,960	3,780	3,669
Collection system	12,793	12,935	11,075	12,998	17,296	37,040	28,596	21,866	21,943	13,801
Pumping	24,631	22,267	21,680	26,161	33,064	31,979	33,440	33,401	22,293	18,040
Treatment	77,552	73,347	69,169	68,816	66,299	78,605	86,497	83,907	61,359	54,864
Transmission and distribution	19,357	18,229	17,419	16,409	16,656	29,675	24,157	17,492	13,717	10,651
Customer accounting and service	22,083	21,197	17,619	23,813	23,530	25,012	21,313	19,508	18,293	15,054
General and administrative	35,728	27,473	26,914	32,091	30,190	27,845	38,549	37,095	36,465	20,127
Total operating and maintenance expenses	196,872	180,219	168,891	184,608	191,431	233,913	236,195	218,229	177,850	136,206
Operating income before depreciation	157,235	180,404	210,501	193,144	181,191	148,692	114,863	106,530	95,943	91,236
DEPRECIATION	114,642	109,270	94,489	89,025	68,170	65,703	57,185	49,779	45,742	43,479
Operating income	42,593	71,134	116,012	104,119	113,021	82,989	57,678	56,751	50,201	47,757
NON-OPERATING REVENUES (EXPENSES):										
Interest income	32,820	60,233	57,917	43,967	45,466	41,867	32,341	23,784	19,451	8,836
Interest expense	(80,722)	(83,165)	(83,151)	(75,815)	(65,118)	(55,638)	(38,156)	(34,234)	(26,888)	(22,390)
Other income	1,480	1,511	1,120	1,901	554	694	541	589	492	512
Income (loss) before contributions and transfers	(3,829)	49,713	91,898	74,172	93,923	69,912	52,404	46,890	43,256	34,715
Capital contributions	57,177	47,574	-	-	-	-	-	-	-	-
Transfers to County's General Fund	(33,035)	(25,547)	(24,788)	(25,849)	(31,471)	(18,319)	-	-	-	-
Increase in net assets \$	20,313	71,740	67,110	48,323	62,452	51,593	52,404	46,890	43,256	34,715

WATER SYSTEM Schedule of Revenues and Expenses Last Ten Fiscal Years

(in thousands)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
OPERATING REVENUES:										
Retail \$	121,632	124,473	133,766	133,775	129,481	133,559	122,528	116,080	108,390	94,329
Wholesale	20,236	20,311	23,012	22,623	22,249	20,217	21,392	22,564	20,556	18,659
Other	9,227	9,525	10,068	9,436	9,313	8,950	7,952	6,617	5,655	3,113
Total operating revenues	151,095	154,309	166,846	165,834	161,043	162,726	151,872	145,261	134,601	116,101
OPERATING AND MAINTENANCE EXPENSES:										
Source of supply	4,728	4,771	5,015	4,320	4,396	3,757	3,643	4,960	3,780	3,669
Pumping	1,803	1,558	1,532	1,630	1,471	1,596	2,003	2,758	2,305	2,152
Treatment	34,466	32,640	29,700	29,865	28,802	35,611	35,262	33,351	27,110	25,057
Transmission and distribution	19,357	18,229	17,419	16,409	16,656	29,675	24,157	17,492	13,717	10,651
Customer accounting and service	12,578	12,431	10,024	13,235	13,055	14,006	12,031	10,774	10,720	8,318
General and administrative	11,412	9,430	10,227	12,239	11,800	10,227	13,295	12,864	10,536	8,032
Total operating and maintenance expenses	84,344	79,059	73,917	77,698	76,180	94,872	90,391	82,199	68,168	57,879
Operating income before depreciation	66,751	75,250	92,929	88,136	84,863	67,854	61,481	63,062	66,433	58,222
DEPRECIATION	32,347	30,916	21,851	22,520	14,796	17,660	16,740	15,408	13,714	12,347
Operating income	34,404	44,334	71,078	65,616	70,067	50,194	44,741	47,654	52,719	45,875
NON-OPERATING REVENUES (EXPENSES):										
Interest income	16,943	32,560	28,965	20,136	20,742	16,764	14,862	11,733	8,190	5,491
Interest expense	(21,397)	(21,240)	(22,869)	(18,324)	(18,774)	(18,260)	(17,456)	(16,823)	(14,769)	(14,494)
Other income	1,447	916	710	1,235	554	697	541	589	492	512
Income before contributions and transfers	31,397	56,570	77,884	68,663	72,589	49,395	42,688	43,153	46,632	37,384
Capital contributions	21,168	15,199	-	-	-	-	_	-	-	-
Transfers to County's General Fund	(10,855)	(8,235)	(9,419)	(9,823)	(12,274)	(6,778)	-	-	-	-
Increase in net assets \$	41,710	63,534	68,465	58,840	60,315	42,617	42,688	43,153	46,632	37,384

WASTEWATER SYSTEM

Schedule of Revenues and Expenses Last Ten Fiscal Years

(in thousands)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
OPERATING REVENUES:										
Retail \$	142,334	144,801	152,025	149,282	147,259	149,888	140,757	128,324	101,088	78,268
Wholesale	52,909	54,075	52,511	54,238	55,984	62,290	51,088	44,730	32,938	27,894
Other	7,769	7,438	8,010	8,398	8,336	7,701	7,341	6,444	5,166	5,179
Total operating revenues	203,012	206,314	212,546	211,918	211,579	219,879	199,186	179,498	139,192	111,341
OPERATING AND MAINTENANCE EXPENSES:										
Collection system	12,793	12,935	11,075	12,998	17,296	37,040	28,596	21,866	21,943	13,801
Pumping	22,828	20,709	20,148	24,531	31,593	30,383	31,437	30,643	19,988	15,888
Treatment	43,086	40,707	39,469	38,951	37,497	42,994	51,235	50,556	34,249	29,807
Customer accounting and service	9,505	8,766	7,595	10,578	10,475	11,006	9,282	8,734	7,573	6,736
General and administrative	24,316	18,043	16,687	19,852	18,390	17,618	25,254	24,231	25,929	12,095
Total operating and maintenance expenses	112,528	101,160	94,974	106,910	115,251	139,041	145,804	136,030	109,682	78,327
Operating income before depreciation	90,484	105,154	117,572	105,008	96,328	80,838	53,382	43,468	29,510	33,014
DEPRECIATION	82,295	78,354	72,638	66,505	53,374	48,043	40,445	34,371	32,028	31,132
Operating income (loss)	8,189	26,800	44,934	38,503	42,954	32,795	12,937	9,097	(2,518)	1,882
NON-OPERATING REVENUES (EXPENSES):										
Interest income	15,877	27,673	28,952	23,831	24,724	25,103	17,479	12,051	11,261	3,345
Interest expense	(59,325)	(61,925)	(60,282)	(57,491)	(46,344)	(37,378)	(20,700)	(17,411)	(12,119)	(7,896)
Other income (loss)	33	595	410	666	-	(3)	-	-	-	-
Income (loss) before contributions and transfers	(35,226)	(6,857)	14,014	5,509	21,334	20,517	9,716	3,737	(3,376)	(2,669)
Capital contributions	36,009	32,375	-	-	-	-	-	-	-	-
Transfers to County's General Fund	(22,180)	(17,312)	(15,369)	(16,026)	(19,197)	(11,541)	-	-	-	-
Increase (decrease) in net assets \$	(21,397)	8,206	(1,355)	(10,517)	2,137	8,976	9,716	3,737	(3,376)	(2,669)
	` ' '		/	• • •						

MIAMI-DADE WATER & SEWER DEPARTMENT

DEBT SERVICE COVERAGE

Last Ten Fiscal Years

(in thousands)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
PRIMARY DEBT COVERAGE ⁽¹⁾)									
Water System:										
Adjusted net revenues ⁽²⁾	\$ -	-	-	-	-	-	-	-	-	61,327
Debt service Requirements ⁽³⁾	\$ -	-	-	-	-	-	-	-	-	27,778
Actual coverage	-	-	-	-	-	-	-	-	-	2.21
Required coverage	-	-	-	=	=	-	-	-	-	1.33
Wastewater System:										
Adjusted net revenues(2)	\$ -	-	-	-	-	-	-	-	-	35,174
Debt service Requirements ⁽⁴⁾	\$ -	-	-	-	-	-	-	-	-	15,372
Actual coverage	-	-	-	-	-	-	-	-	-	2.29
Required coverage	-	-	-	=	=	=	-	-	-	1.33
Combined Water and Water	astewater Sys	stems:								
Adjusted net revenues(2)	\$ 199,212	203,393	229,990	179,822	210,011	151,307	126,778	125,107	104,895	96,501
Combined debt service Requirements ⁽⁵⁾	\$ 115,654	115,632	114,976	102,501	99,802	81,781	70,518	62,837	31,569	43,150
Actual coverage	1.72	1.76	2.00	1.75	2.10	1.85	1.80	1.99	3.32	2.24
Required coverage	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.33
SECONDARY DEBT COVERAC	GE.									
State Revolving Fund Lo	_	ns:								
Adjusted net revenues ⁽⁶⁾	\$ 71,993	76,198	103,517	67,071	101,827	43,123	47,334	62,270	73,326	19,802
Debt service Requirements	\$ 12,417	10,782	10,252	9,490	8,717	8,152	6,033	5,736	3,470	3,470
Actual coverage	5.80	7.07	10.10	7.07	11.68	5.29	7.85	10.86	21.13	5.71
Required coverage	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15

⁽¹⁾ For primary debt coverage, all outstanding debt as of fiscal year 1993 was refunded in fiscal year 1994. The debt service requirements of the new debt are covered by both water and sewer revenues; therefore, no separate detail is presented for the Water and Wastewater Systems after 1993.

⁽²⁾ Operating revenues minus operating and maintenance expenses adjusted by certain items stipulated in the Bond Ordinance.

⁽³⁾ Represents the debt service requirements of the water portion of the Series 1979 Water and Sewer Utility Revenue Bonds (matured in fiscal year 1989); the water portion of the Water and Sewer System Revenue Bonds Series A and B (Series A refunded in fiscal year 1994; Series B matured in fiscal year 1992); the Waterworks System General Obligation Bonds Series A and B (refunded in fiscal year 1994), Series C (partially refunded in fiscal year 1987; unrefunded portion matured in fiscal year 1990), and Refunding Series 1987 (refunded in fiscal year 1994); the 1982 State Loan (Pollution Control Bonds Series N, refunded in fiscal year 1992); the 1986 State Loan (Pollution Control Bonds Series T, refunded in fiscal year 1994; excludes \$11.8 million interest paid which was provided from capitalized interest account); the 1992 State Loan (Pollution Control Bonds Series X, refunded in fiscal year 1994; excludes \$2.7 million which was provided from capitalized interest account); and the Water System Revenue Refunding Bonds Series 1992 (refunded in fiscal year 1994).

⁽⁴⁾ Represents the debt service requirements of the wastewater portion of the Series 1979 Water and Sewer Utility Revenue Bonds (matured in fiscal year 1989); the wastewater portion of the Water and Sewer System Revenue Bonds Series A and B (Series B matured in fiscal year 1992); the 1978 State Loan (Pollution Control Bonds Series M, refunded in fiscal year 1988 and Series H, refunded in fiscal year 1994); the 1987 State Loan (Pollution Control Bonds Series V, refunded in fiscal year 1994; excludes \$3.6 million interest paid which was provided from capitalized interest account); and the 1988 State Loan (Pollution Control Refunding Bonds Series W, refunded in fiscal year 1994).

⁽⁵⁾ Represents the debt service requirements of the obligations detailed in footnotes 3 and 4, the Series 1993 Revenue Refunding Bonds (excludes \$1.1 million interest paid which was provided from capitalized interest account), the Series 1994 Revenue Bonds, the Series 1995 Revenue Bonds (excludes \$1 million interest paid which was provided from capitalized interest account), the Series 1997 Revenue Bonds (excludes \$1.9 million interest paid which was provided from capitalized interest account) and the Series 1999A Revenue Bonds (excludes \$708,333 interest paid which was provided from capitalized interest account).

⁽⁶⁾ For fiscal years after 1993, combined water and wastewater adjusted net revenues less primary debt service coverage requirement on all bonds; for fiscal year 1993, wastewater adjusted net revenues less wastewater primary debt service requirements

WATER USAGE Last Ten Fiscal Years

(millions of gallons)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
WATER PUMPED:										
Water treatment plants:										
Alexander Orr, Jr.	59,953	60,187	61,603	61,074	61,636	62,308	62,071	60,342	60,199	59,787
John E. Preston	29,631	27,939	33,207	33,507	32,414	32,675	33,322	34,884	33,179	34,163
Hialeah	27,238	26,317	26,016	26,000	25,920	25,471	25,458	24,589	26,445	25,916
Interim plants	2,484	2,406	2,439	2,429	2,222	2,116	2,165	2,284	3,052	3,411
Purchased water	2,026	2,136	2,233	2,057	1,972	1,954	2,120	2,164	2,094	2,365
Total water pumped	121,332	118,985	125,498	125,067	124,164	124,524	125,136	124,263	124,969	125,642
WATER SOLD:										
Wholesale:										
Hialeah	8,742	8,384	8,950	8,931	8,989	9,124	9,734	9,997	10,205	10,620
Miami Beach	7,456	7,853	8,714	8,102	7,901	8,404	8,612	8,923	9,177	9,103
North Miami Beach	4,411	4,350	5,368	5,232	5,232	4,970	5,230	5,444	5,310	5,646
North Miami	1,612	1,862	1,917	2,096	1,890	2,117	2,510	2,405	2,265	2,128
Opa-Locka	1,001	1,030	1,206	1,214	1,253	1,276	1,359	1,377	1,447	1,397
Miami Springs	918	852	918	953	882	863	943	981	1,129	1,138
Hialeah Gardens	687	741	669	590	690	614	146	-	-	-
Bal Harbour	542	522	596	592	550	555	545	511	540	532
North Bay Village	452	450	471	480	475	477	474	480	496	498
Medley	434	441	528	630	430	399	492	472	467	463
Bay Harbor Islands	405	351	382	375	382	371	382	386	367	354
Surfside	336	328	341	342	348	353	358	350	346	372
West Miami	292	280	285	267	243	327	343	318	296	302
Indian Creek Village	138	131	156	158	165	151	156	136	156	175
Virginia Gardens	8	10	11	55	105	101	113	105	-	
Total wholesale	27,434	27,585	30,512	30,017	29,535	30,102	31,397	31,885	32,201	32,728
Retail	68,679	64,383	68,541	67,454	66,560	66,935	67,514	67,656	68,872	69,169
Total water sold	96,113	91,968	99,053	97,471	96,095	97,037	98,911	99,541	101,073	101,897
Non - account water	25,219	27,017	26,445	27,596	28,069	27,487	26,225	24,722	23,896	23,745
Non - account water as a percentage of total water pumped	20.79%	22.71%	21.07%	22.06%	22.61%	22.07%	20.96%	19.89%	19.12%	18.90%
Unaccounted for water as a percentage of total water pumped	7.09%	8.71%	6.41%	11.02%	8.86%	8.93%	8.57%	7.65%	9.61%	13.55%

WASTEWATER TREATMENT

Last Ten Fiscal Years

(millions of gallons)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
WASTEWATER PLANT FLOWS:										
North District Plant	35,970	36,463	34,988	36,468	35,042	37,594	35,679	35,693	32,549	31,856
Central District Plant	44,581	44,061	44,858	44,017	46,766	45,741	47,403	51,038	48,106	49,634
South District Plant	35,149	33,479	32,398	33,041	29,817	34,536	33,346	32,598	33,808	34,311
Total wastewater plant flows	115,700	114,003	112,244	113,526	111,625	117,871	116,428	119,329	114,463	115,801
WASTEWATER TREATED:										
Wholesale:										
Hialeah	10,328	10,825	11,074	11,430	13,438	15,988	13,906	13,954	11,562	11,970
Miami Beach	9,301	8,942	9,361	9,675	9,196	10,076	9,697	10,465	9,845	10,245
North Miami	4,116	4,032	4,071	4,057	3,608	4,184	3,521	4,007	4,019	4,293
Opa-Locka	1,101	2,287	1,135	1,204	1,267	1,382	829	1,063	1,258	1,193
Coral Gables	2,537	2,031	1,844	2,370	1,991	1,969	1,605	1,716	1,880	2,291
Miami Springs	1,205	1,477	1,328	1,030	1,480	1,799	1,396	1,431	892	733
North Miami Beach	1,125	1,141	1,208	1,171	1,194	1,350	1,475	1,581	1,665	1,593
Medley	628	469	514	536	469	418	541	529	450	414
Florida City	367	317	255	216	173	115	113	112	145	159
Homestead Air Force Base (1)	197	280	241	188	-	-	382	539	717	799
West Miami	188	198	187	189	194	188	165	146	92	106
Hialeah Gardens	197	94	137	166	147	154	123	79	118	111
Homestead	97	5	1	237	440	600	689	842	1,112	1,316
Dade County Aviation Department (2)	-	-	-	-	-	-	-	-	-	939
Total wholesale	31,387	32,098	31,356	32,469	33,597	38,223	34,442	36,464	33,755	36,162
Retail	50,619	45,862	47,862	50,445	51,440	51,071	51,209	51,155	52,329	50,590
Unaccounted for wastewater	33,694	36,043	33,026	30,612	26,588	28,577	30,777	31,710	28,379	29,049
Total wastewater treated	115,700	114,003	112,244	113,526	111,625	117,871	116,428	119,329	114,463	115,801
Unaccounted for wastewater as a percentage of total wastewater treated	29.12%	31.62%	29.42%	26.96%	23.82%	24.24%	26.43%	26.57%	24.79%	25.09%
ANNUAL RAINFALL (inches): (3)	73.1	79.7	54.4	59.0	66.7	71.7	59.2	89.4	70.0	66.8

 ⁽¹⁾ Classified as retail customer in fiscal years 1996 through 1999.
 (2) Classified as retail customer as of fiscal year 1994.
 (3) Source: National Weather Service Forecast Office in Miami for rainfall recorded in inches at Miami International Airport.

Number of Customers at Fiscal Year-End Last Ten Fiscal Years

			Ratio of
			Wastewater Customers
	Number of	f Customers	to Water
<u>Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Customers</u>
1993	328,829	241,308	73.4 %
1994	339,251	250,007	73.7
1995	345,249	255,724	74.1
1996	353,526	263,649	74.6
1997	359,559	270,639	75.3
1998	364,957	273,576	75.0
1999	369,924	280,594	75.9
2000	372,973	283,656	76.1
2001	388,169	294,000	75.7
2002	398,073	306,061	76.9

Largest System Customers October 2001 - September 2002

Dollar Amount <u>(in thousands)</u>	Percent of System Gross <u>Revenues</u>
00-	• • • •
	3.8 %
	3.8
	2.2
1,539	1.0
1,240	0.8
770	0.5
609	0.4
528	0.3
421	0.3
417	0.3
\$17,378 15,572 6,914 4,256 2,052 1,907 1,845 1,527 1,052	8.6 % 7.7 3.4 2.1 1.0 0.9 0.9 0.8 0.5 0.3
	Amount (in thousands) \$5,797 5,736 3,394 1,539 1,240 770 609 528 421 417 \$17,378 15,572 6,914 4,256 2,052 1,907 1,845 1,527

WATER & SEWER DEPARTMENT

INSURANCE IN FORCE

Type of Coverage and Insurance Company	Policy Number / Policy Period	Details of Coverage	Limits of Liability
Public Employees Blanket Bond: Fidelity & Deposit Co. of Maryland	CCP0013421 / 08/19/97 until canceled	Employee dishonesty	\$1,000,000 blanket bond \$50,000 deductible
Money and Securities: Fidelity & Deposit Co. of Maryland	CCP0019361 / 11/25/97 until canceled	Loss inside premises Loss outside premises Forgery or alteration	Various \$250 deductible Various \$250 deductible \$100,000
Accidental Death: Hartford Life Insurance Co.	ETB-105355 / 08/29/02 - 08/29/03	Accidental death and dismemberment	\$25,000
Property Insurance: Industrial Risk Insurers Lexington Insurance Co. and other companies	31-3-69076 and 9551710 / 10/31/01 - 10/31/02	"All risk" coverage on real and personal property and outfalls	Various
Automobile Liability:	N/A / continuous	Self-insured fund	\$100,000 per person/ \$200,000 per occurrence pursuant to F.S. 768.28
General Liability:	N/A / continuous	Self-insured fund	\$100,000 per person/ \$200,000 per occurrence pursuant to F.S. 768.28
Workers' Compensation: Miami-Dade County Self- Insurance Fund	N/A / continuous	Statutory workers' compensation	Statutory coverage pursuant to F.S. 440

Population Miami-Dade County, Florida Selected Years 1900-2002

<u>Year</u> 1900	Resident Population 4,955	Increase (Decrease)	Annual Percent <u>Change</u>
1910	11,933	6,978	9.2 %
1920	42,752	30,819	13.6
1930	142,955	100,203	12.8
1940	267,739	124,784	6.5
1950	495,084	227,345	6.3
1960	935,047	439,963	6.5
1970	1,267,792	332,745	3.1
1980	1,625,781	357,989	2.5
1990	1,967,000	341,219	1.9
2000	2,253,485	286,485	1.4
2001	2,283,319	29,834	1.3
2002	2,313,047	29,728	1.3

Source: U.S. Bureau of the Census figures 1900-2000; Planning Research Section, Miami-Dade County Department of Planning and Zoning estimates, 2001.

Number of Building Permits Issued for Housekeeping Units and Value of Permits for Housekeeping and Total Units Miami-Dade County, Florida 1992-2001

	Number of Per	rmits Issued	Value of Permits Issued Residential
Calendar	Single Family	Multi-family	Construction
<u>Year</u>	<u>Houses</u>	Buildings	(in thousands)
1992	5,515	2,797	\$ 963,362
1993	5,793	3,233	678,741
1994	6,079	5,231	822,129
1995	7,364	7,425	1,213,966
1996	3,802	2,749	540,183
1997	5,146	4,592	817,140
1998	5,354	5,556	921,813
1999	6,669	7,018	1,064,119
2000	5,988	6,477	1,198,164
2001	6,829	7,168	1,291,357

Source: University of Florida, Bureau of Economic and Business Research, Building Permit Activity in Florida.

Construction Activity Miami-Dade County, Florida 1993-2002

	Commercia	l Construction	Residential Construction		
	Number		Number		
Fiscal	of	Value	of	Value	
<u>Year</u>	Buildings_	(in thousands)	<u>Units</u>	(in thousands)	
1993	528	\$ 206,282	10,379	\$ 624,652	
1994	564	266,084	12,385	721,286	
1995	670	334,560	19,366	983,376	
1996	698	299,347	6,629	455,715	
1997	596	325,797	10,422	643,489	
1998	495	442,924	8,597	679,105	
1999	600	489,353	9,998	781,734	
2000	601	513,457	8,360	687,205	
2001	525	616,442	9,882	845,123	
2002	498	722,077	8,805	751,960	

Source: Miami-Dade County Building Department. Includes only Unincorporated Area.